

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 550 - HB 484

March 6, 2013

SUMMARY OF BILL: Effective January 1, 2014, exempts the retail sale of food and food ingredients sold as unprepared food from the state sales and use tax. Defines unprepared food as the following food types which are either naturally edible when harvested or are primary ingredients used in cooking: minimally processed food ingredients, fresh fruit and vegetables, and raw food. Requires the Department of Revenue (DOR), to develop a list of unprepared food items that are exempt pursuant to this act, prior to November 1, 2013. Requires such list to be maintained on DOR's website.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$87,473,100/FY13-14
\$149,953,900/FY14-15 and Subsequent Years

Decrease Local Revenue – Net Impact – \$3,066,900/FY13-14
\$5,257,500/FY14-15 and Subsequent Years

Assumptions:

- Based on national historical data and information provided by DOR, unprepared food sales in Tennessee are estimated to be \$3,103,838,822 in FY13-14. This number is assumed to remain constant into perpetuity.
- Pursuant to Tenn. Code Ann. § 67-6-228(a), the state sales tax rate levied on food and food ingredients is 5.25 percent.
- The recurring decrease in state sales tax revenue is estimated to be \$162,951,538 (\$3,103,838,822 x 5.25%).
- Local option sales tax will still be levied on sales of unprepared foods; therefore, no reduction in local option sales tax revenue.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of state sales tax revenue as state-shared sales tax revenue.
- Local governments are not held harmless from the loss of state-shared sales tax revenue under this bill.
- The recurring decrease in local revenue pursuant to the state-shared allocation is estimated to be \$7,500,659 (\$162,951,538 x 4.603%).

- The net recurring decrease in state sales tax revenue attributable to the tax rate reduction on food and food ingredients is estimated to be \$155,450,879 (\$162,951,538 - \$7,500,659).
- Fifty percent of tax savings will be spent in the economy on other non-food sales-taxable goods and services.
- The current state sales tax rate levied on non-food sales-taxable goods and services is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- Pursuant to Tenn. Code Ann. § 67-6-103(q), no portion of revenue derived from the 0.5 percent sales tax rate increase, from 5.5 percent to 6.0 percent (effective April 1, 1992), or the 1.0 percent sales tax rate increase, from 6.0 percent to 7.0 percent (effective July 15, 2002), shall be distributed to local government.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617% $[(5.5\%/7.0\%) \times 4.603\%]$.
- The net recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy on other non-food sales-taxable goods and services is estimated to be \$5,497,016 $[(\$162,951,538 \times 50.0\% \times 7.0\%) - (\$162,951,538 \times 50.0\% \times 7.0\% \times 3.617\%)]$.
- The recurring increase in state-shared sales tax revenue apportioned to local governments as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services is estimated to be \$206,288 $(\$162,951,538 \times 50.0\% \times 7.0\% \times 3.617\%)$.
- The total recurring increase in local revenue as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services is estimated to be \$2,243,182 $[(\$162,951,538 \times 50.0\% \times 2.5\%) + \$206,288]$.
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$149,953,863 $(\$155,450,879 - \$5,497,016)$.
- The net recurring decrease in local revenue as a result of this bill is estimated to be \$5,257,477 $(\$7,500,659 - \$2,243,182)$.
- As a result of the bill's effective date of January 1, 2014, the first-year impact will be FY13-14. The first-year impact is estimated to be seven twelfths of the recurring annual impact.
- The net decrease in state revenue in FY13-14 as a result of this bill is estimated to be \$87,473,087 $(\$149,953,863 \times 7/12)$.
- The net decrease in local revenue in FY13-14 as a result of this bill is estimated to be \$3,066,862 $(\$5,257,477 \times 7/12)$.
- Any increase in expenditures for DOR to develop a list of unprepared food items that are exempt pursuant to this act, and maintain such list on DOR's website is estimated to be not significant and can be accommodated within existing resources without an increased appropriation or reduced reversion.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "Lucian D. Geise". The signature is fluid and cursive, with the first name "Lucian" written in a larger, more prominent script than the last name "Geise".

Lucian D. Geise, Executive Director

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